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Editorial

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The JOURNAL of ACCOUNTANCY

Official Organ of the AMERICAN INSTITUTE OF ACCOUNTANTS

A. P. RICHARDSON, *Editor*

[Opinions expressed in THE JOURNAL OF ACCOUNTANCY are not necessarily endorsed by the publishers nor by the American Institute of Accountants. Articles are chosen for their general interest, but beliefs and conclusions are often merely those of individual authors.]

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EDITORIAL

The Seventy-third Congress

The *Bulletin* of the American Institute of Accountants, published July 15th, contained an interesting summary of the accomplishments of the seventy-third congress, which departed for its several homes on June 18th. Opinions will differ as to the results of the labors of this unusual congress. It was probably the most obedient legislature ever assembled in the history of the United States. If every president from Washington onward had been so blessed by an absence of recalcitrance in the capitol as was President Franklin Roosevelt during the first fifteen months of his administration, the country would probably be very much better off today than it is. At times congress may have saved the country from unwise administrative theories, but we believe that most of our presidents would have made a greater success of things had they been unhampered by legislative idiosyncrasies. We are too near the record of this congress to obtain a true perspective of its accomplishment. Some of the things which it did were quite evidently foolish, some were mildly unwise, many perhaps were beneficial; but the point of special importance to accountants is that no other congress ever did quite so much to bring accountancy to the fore as was done between March, 1933, and June, 1934. Whatever one may think of the so-called new deal with its multifarious implications, everyone must admit that it has produced a spirit of investigation and analysis—and that is where accountancy comes into its own. Whether the "codes" live or die, are

upheld or thrown out by the courts, people are thinking, and when they think they begin to scrutinize and to tear apart to see what it is that makes the wheels go 'round. To do this they must learn something of the records of what has been done and what is being done, and so accounts have assumed a significance in the public mind quite unequalled in the past. All the innumerable and alphabetical bureaus which seek to tell us how to live and move and have our being call for an infinite amount of accounting, some of it significant and some valueless, but all accounting nevertheless. The summary of the record which appeared in the *Bulletin* recited some of the more important deeds of the congress. One can not know what their effect may be so far as the welfare of the country is concerned, but in the meantime the accountant can render a magnificent service to his country and his people if he will do his utmost to make clear the facts. Some of the things which are claimed as the peculiar accomplishments of the new deal are quite old, and some of those which are truly new may have exceeding merit. The accountant can help more than any other man to place the final valuation upon these various endeavors.

**An Eminent Opinion
on Solicitation**

One of the chief adverse criticisms directed by readers against the policy of THE JOURNAL OF ACCOUNTANCY has been that the magazine devotes an unnecessary amount of attention to the question of professional ethics. It has been said that it is superfluous to inculcate ethics, because the man who is naturally ethical will do the ethical thing and the man who is not naturally ethical will not be diverted from his ways by preaching. But it seems to us that ethics is so fundamental a part of every profession that it is almost impossible to devote too much attention to it. A large portion of the literature of the bar concerns the principles of high morality which should animate the members of the legal profession. Medical men are more concerned today than ever before with the question of ethical practice, because there has of late arisen in that great profession a spirit of greed and unscrupulous scrambling for patients that threatens the whole fabric of medicine. Accountancy as a rule has been fairly clear of the more reprehensible departures from professional ethics, but there is still enough temptation to depart from strict rectitude to make the constant reiteration of ethical principles

imperative. In a recent case an attorney was charged with illegal solicitation of law business and was censured by Judge Henry T. Lummus of the supreme court of Massachusetts. The point of peculiar interest to us is the conclusion of the report of the decision. The court said that in the practice of law those best equipped to handle matters for their clients did not solicit business in this way. "But if it is permitted it results in public harm and brings a large amount of business into the hands of lawyers least fitted to handle it. It results in an evil and puts business in the hands of those who give little in return for it. . . . A young man who is starting out may be hampered by the rule, but in time, if he has sufficient ability, business will come to him. But this is a get-rich-quick scheme applied to the law and like all such schemes it does not give the public a fair deal." The solicitation of business by accountants continues to exist probably to a greater extent than is known to the more ethical members of the profession. The principal excuse for soliciting is that the young man must make himself conspicuous in some way so as to attract clients. And the question asked repeatedly is: How can a man become prominent if he does nothing to draw attention to himself? The answer of Judge Lummus to this plea is sound and should be convincing. Everyone must sympathize with the desire of the young practitioner to obtain practice, but that is not to admit that there is any excuse whatever for going out into by-ways and hedges to compel clients to come in. The difficulty encountered in building up a practice is one of the things that is irksome at the moment but will be pleasant to look back upon when success shall have been achieved. At any rate, it is gratifying to have another authentic statement of the evils of solicitation from so high an authority as a member of the supreme bench of Massachusetts.

**Annual Meeting
of Institute**

We have been requested to draw attention once more to the dates of the annual meeting of the American Institute of Accountants, which will be held this year in Chicago, Illinois. The dates are October 15th-18th and the place of meeting is the Stevens Hotel. The program, tentatively arranged, has several unusual features and the committee on meetings which has been at work for some time reports that the prospects of attendance are excellent. Special arrangements for railway transportation

can be made in all parts of the country. The Century of Progress exposition will continue until October 31st and the railway rates applicable to tickets to and from Chicago during that exposition will make it possible to attend the meeting of the Institute at an exceptionally low cost. The American Institute of Accountants cordially invites all who are interested in accountancy to attend the open sessions of its annual meeting.

What is Advertising? A correspondent raises an interesting question relative to the interpretation of rules of ethics. It is one of those questions which depend upon a definition of what constitutes an offense of a certain kind. The correspondent says: "A certain publishing house is making an offer of a set of law books, a brochure on business, subscription to a service and to several magazines, and this offer is accompanied by a letter expressing a good opinion of the books and the services. The C. P. A. examination of last November asked the question: 'Why should not accountants advertise?' May I now ask the question: What constitutes advertising?" Enclosed with the letter from our correspondent is a clipping from an unidentified paper, at the top of which appears a headline, "Everyone should know what a certified public accountant told . . . businessmen." Then appears the name of the accountant, his address and a description of a booklet which purports to explain how prosperity may be rapidly attained. The printed announcement concludes as follows: "I have no ax to grind, no interest in its publication, its authors or its backers, in fact I do not know any of them and never heard of the author, but of all the plans that have been devised I believe that this is the one plan that will solve our problems quickly, effectively and permanently." This is followed by the printed signature of the accountant. Upon receipt of this letter we asked the author to give us further explanation and he then wrote as follows:

"I evidently did not outline the proposition of the publishing firm clearly enough. The recipient of the books, magazines and business service, for a very nominal cost, is to be called upon at various times for a written statement of the services received. These statements to be written on the firm's stationery and signed, similar to the clipping I enclosed in my letter of the 14th.

"As I recall it, the headline of the advertisement was, 'See what a public accountant says about such and such a plan,' in 'scare-head' type.

"Does the publishing of such a letter of endorsement for an article constitute advertising for the accountant writing such a letter?

"In the case of a doctor, the endorsing of a certain medicine or type of food does violate the code of ethics of the medical profession. If the reader of the advertisements will read them closely, they will find that the doctor is famous, not in this country, but in Europe.

"The medical profession has ruled, as I understand it, that the endorsing of food stuffs or patent medicines is advertising to that doctor and, as such, is against their code of ethics.

"Is not the endorsing or writing an opinion on a book or set of books on the firm's stationery, that becomes the property of the publishing firm and may be used as advertising material, the same as the doctors' endorsing food stuffs or patent medicines?

"If the cases are parallel doesn't the accountant, by accepting the offer of the publisher, violate the code of ethics, whether his letter is used or not?

"If the cases are not parallel, what does constitute advertising?"

Let Each Man Answer

An accountant eminent in the early days of accountancy, and now, alas, no longer with us, said shortly before his death that ethics was a state of mind and that if a man were not born with the ability to distinguish between what was proper and what was improper it would be a difficult matter to instil in him a true sense of the proprieties. That, it seems to us, is the most effective answer that can be returned to our correspondent's inquiry. The accountant, we think, must ask himself the question whether any statement which he makes is to be helpful to him personally in his professional practice or is solely designed to enlighten the public. There have been many instances considered by committees on professional ethics wherein it was difficult to determine whether an offense had or had not been committed. For example, it has often been held that an accountant who writes a book or a magazine article which is widely quoted and generally read may derive an indirect benefit in prestige and yet be entirely within the bounds of propriety. In that case the publicity which he receives is purely incidental. Every lawyer who becomes the author of a standard text on a legal question necessarily acquires a certain amount of notoriety or fame, whether he desire that acquisition or not. On the other hand, if a man does some important thing

in his profession and his conduct is dictated primarily by the desire for self-advertisement he is not within the bounds of propriety. It is a question which each man must decide for himself after careful and prayerful consideration. If he can honestly say that his principal purpose is to render a service to his profession, whether that be medicine or law or the church or accountancy, he is entirely justified in doing the thing which he believes that he can do even if he knows that it will bring him into prominence. If, however, his first thought is to make his name more widely known so that his practice may increase and his profits grow greater he is probably guilty of a moral breach of the code of ethics of his profession.

**Prime Purpose Is the
Determining Factor**

As an illustration of the border-line cases which are hard to decide let us suppose that a manufacturer of some nationally advertised article obtains an opinion from an accountant which is based upon the result of research or of a questionnaire. If the accountant says for publication that the XYZ Company is the manufacturer of a blotting paper which excels all other blotting papers in absorptive power, and that he bases such an opinion upon statements received from persons who use blotting paper, is he guilty of a breach of the code of ethics of his profession? We believe that he is. Our correspondent believes that a physician is forbidden to endorse a patent medicine or a food. We are inclined to believe that a lawyer who endorsed a form of legal document produced by a printing house would be construed as a violator of the legal code of ethics. Arguing from these analogies it seems to us that the accountant who endorses some article of merchandise is equally guilty of a departure from the highest standard of professional ethics. Advertisement as the word is commonly used is restricted to a much narrower field than that which it originally embraced. Strictly speaking, advertisement is something which turns the attention of people to something. We now use the word as a statement which praises or recommends some special article in which the advertiser has direct or indirect interest. What does constitute advertising is one of the most difficult of all problems for every professional man to decide. There is such a wide twilight zone between the proper and the improper that no code or rule can draw a distinct line of partition between them.

**Profession's Welfare
Comes First**

Undoubtedly every man who has his way to make in the world must be conscious of the effect which will probably follow any act or word of his. It would be silly to suggest that no professional man should ever consider the effect arising from a cause. The point which is distinguishable is in a man's own mind. If the result in terms of dollars is more important than the result in terms of accomplishment or assistance to the profession, the properly animated professional man will have nothing to do with it. As we have said before, personal aggrandizement should be secondary, if not even further removed from the primary purpose. If an accountant advertises in the public press, he knows that he is doing so in order to attract attention to himself or his practice and therefore, although most of the codes of ethics permit a supposedly modest form of "card" advertisement without reference to peculiar merits or qualifications, we believe that such advertising is unwise and ultimately unethical. It is, of course, admitted almost universally that an accountant who describes himself as better than his fellows is guilty of gross impropriety. The accountant who merely yields to the blandishments of an advertising solicitor and allows his name, address and professional designations to be printed in a book, magazine or daily paper may not break any rules so far established, but he is not following the highest ideal of ethical procedure. The whole question of what constitutes advertising is becoming more acute day by day. This is due in part to the increase of recognition which is given by all professional men to the undesirability of self laudation. The man who wants to be absolutely untouched by taint of unprofessionalism will be wise to abjure all forms of printed advertisement. Probably in the future not far distant there will be as strict a rule against advertisement of any kind as there is today against self praise in advertisement. The matter has been discussed so many times that it seems difficult to find anything new or helpful to say that has not already been said, but at the risk of a charge of needless repetition let us reiterate that professional service and commodities are in totally different categories. It is proper to advertise truthfully and modestly the virtues of any article offered for sale in which the vendor has faith. The article which he offers is not himself; it is something which he has made or bought or developed. He can praise this thing if he truly believes in its excellence, and in doing so he may in many

instances render a service to potential buyers. But no man can say that he is wiser or better equipped or more richly endowed with ability than his fellows without losing much of that fine gentlemanly feeling which underlies all high professional ethics.

**Question of Prophecy
is Revived**

We had believed that accountants generally were of the opinion that prophecy should never enter into the field of accountancy and, accordingly, in *THE JOURNAL OF ACCOUNTANCY* for July, 1934, the notes upon that subject were written with the notion that they would meet with unqualified endorsement. But we have now received a letter which indicates that we were unduly optimistic. This letter reads in part as follows:

"With reference to your editorial in the July, 1934, issue of *THE JOURNAL OF ACCOUNTANCY*, captioned, *Prophecy Has No Part in Accountancy*, is it not time that this outworn dogma be removed from the many unwritten laws of accountancy?

"We will not quibble about a definition—prophecy may include such discredited arts as foretelling events by the use of cards or a crystal ball, but, simply stated, it means, according to Webster's, 'a declaration of something to come; a prediction.' Where is there a professional man who does not predict? The prediction may be qualified to some extent, but it is still a 'prophecy.'

"A doctor will tell a patient that he will be cured by an operation. The doctor has seen a great many cases cured by the operation and so is willing to prophesy. A lawyer will tell his client that he will win his suit. The lawyer has attempted to draw analogies between his client's case and similar cases which have already been decided by the courts. Often both the doctor and the lawyer are wrong, but it seems perfectly reasonable for them to prophesy.

"An accountant will set up a budget and, if he is a good accountant, he will do far more than state that if a certain income is attained and the expenses are kept within a stated amount, the profits will be so much. That would be simple mathematics. His value as a professional consultant depends on his knowledge of the conditions which will govern the accomplishment of the budget—the 'reasonable' attainment of the expected income, the practicability of holding the expenses within prescribed limits. With the facts of a business at his disposal, supplemented often by a knowledge of operating conditions in similar businesses, why is it contrary to the tenets of a conservative professional man for him to predict results which may, 'in his opinion,' be expected? We believe that accounting is not an exact science, that a balance-sheet is only someone's opinion of the financial condition of a company at a particular instant. An opinion may

be worth much or little, depending on the professional man's knowledge of pertinent facts and his own interpretative ability. Why discredit or call a man a 'fool' if he should use this same ability to forecast results which may reasonably be expected and make these forecasts available to others? These prophecies may always be qualified by the omnibus saving clause, 'in my (our) opinion.'"

**Accountancy Unlike
Other Professions**

This letter is remarkable because it loses sight entirely of the reason why prophecy is taboo. If a physician tells a patient that an operation will effect a cure or if a lawyer predicts success in a case, the patient or client realizes that it is purely an expression of opinion. The work of the lawyer and the physician is largely involved in future developments. The accountant deals with the past. He has nothing whatever to do with the future. He may, of course, notice that there are weaknesses in the methods or the structure of a business and may point out how he thinks improvement could be brought about, but in that he is not an accountant—he is more a business counsellor. As an accountant his value to the community rests upon his ability to analyze facts, and a fact, as everyone knows, is something which is accomplished or done, not something that will be done. The trouble is that so many people misunderstand the true nature of accountancy that they disregard those essential characteristics which separate accountancy from all other professions. By virtue of the fact that accountancy has always been the science of things done, it occupies a position of absolutely unequaled importance. The accountant may express his opinion and should always qualify his certificate as our correspondent suggests by the words "in our opinion," but the opinion which he expresses is merely an interpretation of the facts. It does not justify him in reaching out into the future and arguing from precedent something that is purely prospective. Our correspondent would have the accountant become a prophet. Prophets are rare creatures and most of them are wrong. Far safer is it for the accountant to deal with accounts and let theoretical prognostication fall to some other man.